8-2016

Employment and the Labor Market in Bangladesh: Overview of Trends and Challenges

Asian Development Bank

International Labour Organization

Abstract

Key Messages:

- Manufacturing needs to grow faster as that sector has the potential to be the engine of growth and a major source of productive employment. More labor-intensive sectors such as garments will have to continue to grow. The policy regime needs to be neutral for other industries with the same growth potential.
- The gap in earnings between education levels is narrowing with the exception of secondary education. This general trend is positive in the sense that education does not seem to contribute to income inequality. In addition, greater access to education can help women find better jobs, while their prominence in garment- sector work helps reduce poverty.
- For quality of employment to improve, real wages should rise in tandem with increasing labor productivity. Other elements of the work environment and safety also must improve. If the experience of the garment industry is any indicator, minimum wages and improvements in workplace safety do not seem to reduce employment opportunities.

Keywords

Bangladesh, labor market, employment, income inequality, wages, productivity, education

NO. 62

AUGUST 2016

ADB BRIEFS

Employment and the Labor Market in Bangladesh: Overview of Trends and Challenges

Co-publication of the Asian Development Bank and the International Labour Organization, Regional Office for Labour and the Pacific

KEY MESSAGES

- Manufacturing needs to grow faster as that sector has the potential to be the engine of growth and a major source of productive employment. More labor-intensive sectors such as garments will have to continue to grow. The policy regime needs to be neutral for other industries with the same growth potential.
- The gap in earnings between education levels is narrowing with the exception of secondary education. This general trend is positive in the sense that education does not seem to contribute to income inequality. In addition, greater access to education can help women find better jobs, while their prominence in garment-sector work helps reduce poverty.
- For quality of employment to improve, real wages should rise in tandem with increasing labor productivity. Other elements of the work environment and safety also must improve. If the experience of the garment industry is any indicator, minimum wages and improvements in workplace safety do not seem to reduce employment opportunities.

INTRODUCTION

Since the 1990s, annual gross domestic product (GDP) growth has accelerated. Although it has plateaued in recent years, GDP growth has remained above 6% in most years since the early 2000s. Moreover, the economy has grown alongside a degree of macroeconomic stability, as judged by inflation and budget balances.

Studies, including Islam (2009, 2014a), indicate that although economic growth has been satisfactory, employment performance has been less so—even taking into account the substantial jobs generated in the export-oriented, ready-made garment industry. In addition, the employment challenge is about the transfer of workers from low- to higher-productivity sectors, not just about the sheer number of jobs.

DEMOGRAPHIC AND LABOR FORCE PARTICIPATION TRENDS

In the 2000s, population in Bangladesh grew about 1.5% per year, a rate confirmed by Bangladesh Bureau of Statistics Labor Force Surveys from 2000 to 2013. A notable demographic feature is the significantly higher growth of the female population in the successive surveys. A second notable feature is the high urban population growth in the period (Table 1). As a result, the share of working-age population increased for both males and females as well as for rural and urban areas (Figure 1). In this, the country can reap the rewards of a so-called demographic dividend, provided that people of working age can be converted to human capital and utilized in a productive manner.

The difference in male and female participation rates is an important feature of the labor force (Figure 2). Notably, female labor force participation has risen substantially, although the level remains far below that in East and Southeast Asian countries. That said, after a continuous increase in female labor force participation for 2 decades, the rate declined during 2010–2013. This deserves careful and in-depth analysis.

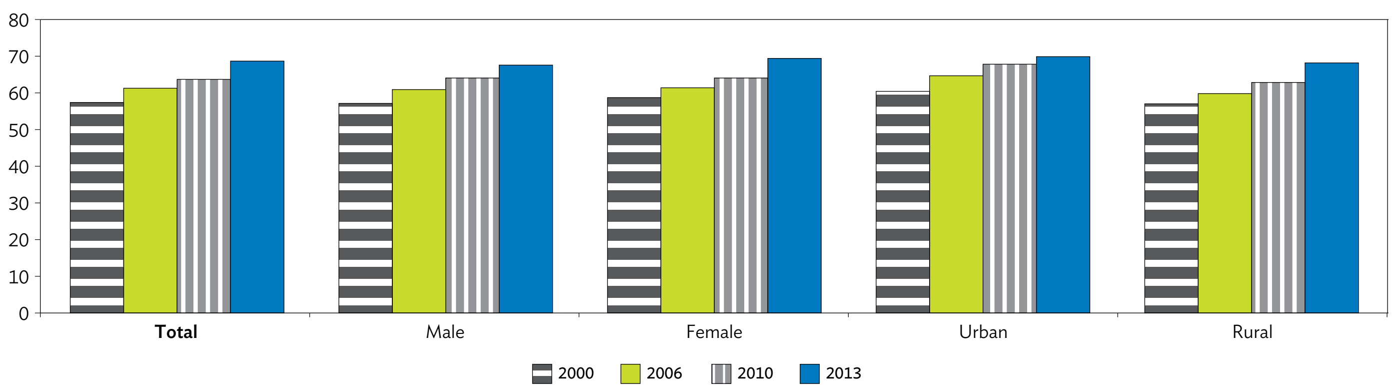
ISBN 978-92-9257-557-1 (Print)
ISBN 978-92-9257-558-8 (e-ISBN)
ISSN 2071-7202 (Print)
ISSN 2218-2675 (e-ISBN)
Publication Stock No. ABF168367-2

Table 1: Population, 2000–2013

	Total	Male	Female	Urban	Rural
2000, million	127.50	66.60	60.90	27.30	100.20
2006, million	137.30	70.00	67.30	32.30	105.00
Annual growth, 2000–2006 (%)	1.24	0.83	1.68	2.84	0.78
2010	148.70	74.20	73.60	34.00	114.70
Annual growth, 2006–2010 (%)	2.01	1.47	2.26	1.29	2.23
2013, million	154.20	76.60	77.50	43.20	110.90
Annual growth, 2010–2013 (%)	1.22	1.07	1.74	8.31	(1.12)
Annual growth, 2000–2013 (%)	1.47	1.08	1.87	3.59	0.78

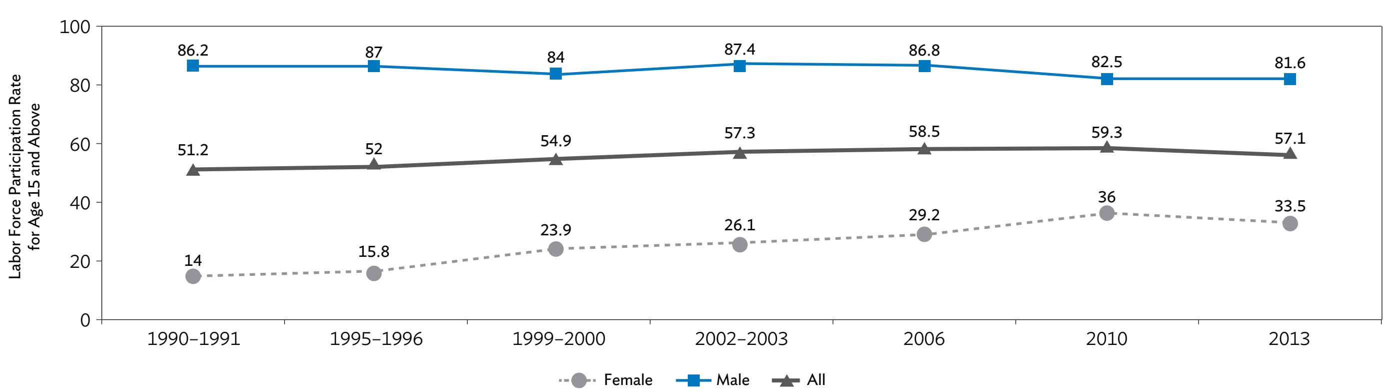
( ) = negative.
Source: Bangladesh Bureau of Statistics. Labor Force Survey.

Figure 1: Working-Age Population as Share of Total Population, 2000-2013 (%)



Source: Bangladesh Bureau of Statistics. Labor Force Survey.

Figure 2: Male and Female Labor Force Participation Rates, 1990–2013 (%)



Source: Bangladesh Bureau of Statistics. Labor Force Survey.

EDUCATION LEVEL OF LABOR FORCE

Bangladesh has also made notable progress on the education level of the labor force, an important contribution to economic growth, as the share with no education or only primary education declines. While in 2000 a much higher proportion of the female labor force had either no education or only primary education, the male–female difference in that regard was all but wiped out by 2010 (Table 2).

Several weaknesses in labor force education level, however, are noteworthy. First, the share with tertiary education is still rather low. Likewise, a very small proportion of the labor force (only one in a thousand) had technical or vocational qualification in 2010. This is not surprising given enrollment in technical and vocational education of only 2.43% of secondary enrollment, compared with 6.31% in Malaysia and 18.41% in the People's Republic of China. In addition, males continued to have significantly higher tertiary education than females (despite some narrowing) (World Bank, World Development Indicators).

Table 2: Labor Force by Level of Education, 1999–2010 (%)

	1999–2000			2010		
Level of Education	Total	Male	Female	Total	Male	Female
No education	48.1	41.5	59.1	40.1	39.9	40.6
Class I–V	25.0	25.7	23.8	22.8	22.9	22.7
Class VI–VIII	11.4	13.4	8.2	14.3	13.8	15.3
Class IX–X	5.2	6.1	3.8	9.0	8.3	10.5
Secondary School Certificate or equivalent	7.1	8.9	4.0	6.2	6.5	5.6
Higher Secondary Certificate or equivalent	....	...	...	3.7	4.0	3.0
Bachelor or equivalent	3.2	4.5	1.1	2.1	2.5	1.2
Master or equivalent	....	...	...	1.4	1.7	0.8
Medical	...	...	...	0.2	0.2	0.1
Technical/vocational	...	...	...	0.1	0.2	0.1

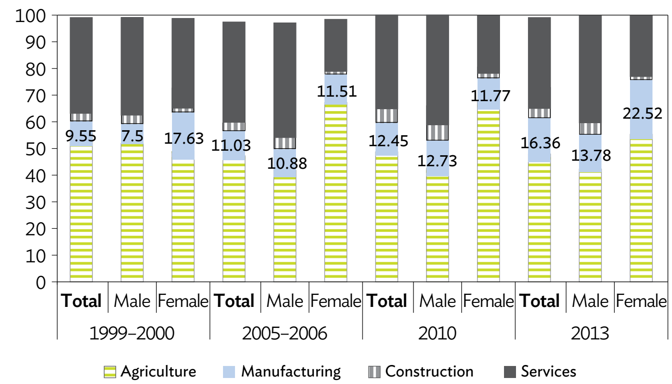
... = no data.
Source: Bangladesh Bureau of Statistics. Labor Force Survey.

SECTOR COMPOSITION OF EMPLOYMENT

Employment composition by economic sector shows several interesting features (Figure 3). First, the share of agriculture declined during 1995–1996 and 2013, but the magnitude of this decline is rather small. This matches with the recent decline of 2.5% in the share of the agriculture, forestry, and fishing sector shares in total GDP from 2006 to 2014.

The share of manufacturing sector increased only modestly up to 2010, but sharply during 2010–2013. Construction, meanwhile, increased noticeably from 1999–2000 to 2010—from less than 3% to nearly 5%, but declined after 2010 to less than 4% in 2013.

Figure 3: Sector Composition of Employment by Gender, 1999–2013 (%)



Source: Calculations using data from the Bangladesh Bureau of Statistics. Labor Force Survey.

Gender difference in the sector composition of employment also warrants attention. On the one hand, the share of women in agriculture has been substantially higher than that of men, and remains so. But the change that is noticeable is that during 2010-2013, the share of women in manufacturing doubled and became much higher than that of men. One surprising element in the gender difference in sector composition is the much lower share of services for women. This is mainly due to women's low participation in transport and the wholesale and retail trade.

VULNERABLE WORKERS

Bangladesh's unemployment rate was low at about 4% in 2013 (Bangladesh Bureau of Statistics 2013), which is in part because people simply cannot afford to remain unemployed and try to eke out a living from whatever work they can get. As a result, a large proportion of the employed are engaged in work that can be called "vulnerable," such as self-employed, own account, unpaid family helper, and day labor. No universally accepted definition of vulnerability exists in this context, but the sense of vulnerability conveyed is from perspectives such as job stability and the income earned.[1] Table 3 shows trends in vulnerable workers.

[1] In 2003, the International Conference of Labour Statisticians adopted a Resolution, which defined vulnerable employment as own-account workers, and contributing family members. This is also used as one of the indicators of Millennium Development Goal 1B relating to employment and labor market. However, this is an imperfect indicator of vulnerable employment, because those in casual wage employment and other wage workers may be vulnerable. On this, and a critique of the MDG indicators of vulnerable employment, see Islam (2014a).

Table 3: Changes in the Structure of Employment by Status in Employment (% of total employment)

Status	1999–2000	2002–2003	2005–2006	2010	2013
Self-Employed/Own-Account Workers (total)	35.1	44.8	41.9	40.8	40.7
Male	49.4	50.6	50.0	47.5	52.2
Female	10.8	24.5	15.9	25.1	12.3
Employee	12.6	13.7	13.9	14.6	23.2
Male	15.1	13.8	14.5	17.0	22.2
Female	8.2	13.4	11.7	8.9	25.5
Unpaid Family Helper	33.8	18.4	21.7	21.8	18.2
Male	10.2	9.9	9.7	7.1	5.1
Female	73.2	48.0	60.1	56.3	50.1
Day Laborers	18.3	20.0	18.2	19.7	15.5
Male	25.0	22.9	21.9	25.8	18.9
Female	7.8	9.6	6.5	5.3	7.2

Source: Calculations using data from the Bangladesh Bureau of Statistics. Labor Force Survey.

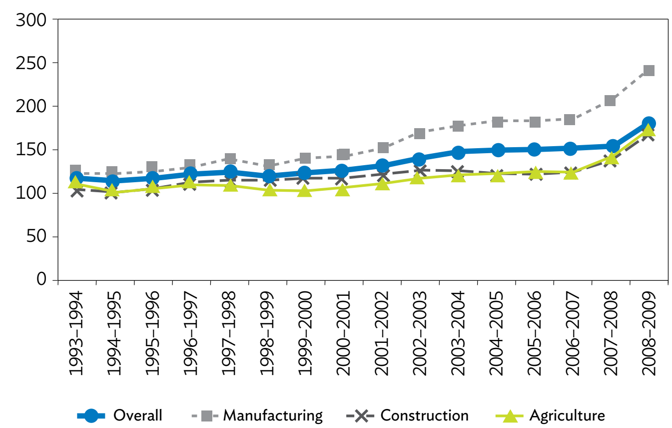
REAL WAGES

Figure 4 presents trends in real wages in sectors from 1993–2008. Real wages have been rising—overall as well as in agriculture and manufacturing—since 2000–2001. This seems positive for the living conditions of workers. When we look at the trend closely, however, we notice that real wages flattened after 2003–2004 for a few years, and started rising again in 2007–2008. In the latter year, prices jumped sharply for food grains in the global market, the impact of which was felt in the local market as well. Instead of real wages being depressed (which may have been natural), they have risen since then.

Table 4 presents the estimated real wage for 2006–2007 to 2011–2012, as an official real wage series is available only up to 2008–2009. Data in Table 4 indicate that the rise in real wages only continued in agriculture after 2008–2009. For industry, the indexes for both 2009–2010 and 2010–2011 were lower than for 2008–2009. Although the indexes rose again in 2011–2012, the index for that year was below 2008–2009, suggesting no clear signs of a sustained increase in real wages in the industry sector. That implies that it is still possible to continue hiring workers without raising real wages and that it would be premature to conclude on the basis of real wage data alone that Bangladesh has reached or is about to reach the Lewis turning point.[2]

[2] Another point to note in this regard is that the difference between industrial and agricultural wages has not increased over time. On this, see Rahman (2012), Table 7.9.3, p. 161.

Figure 4: Index of Real Wages, 1993–1994 to 2008–2009 (1969–1970 = 100)



Source: Ministry of Finance. 2010. *Bangladesh Economic Review*. Dhaka: Government of Bangladesh.

MAGNITUDE OF THE EMPLOYMENT CHALLENGE

The annual rate of growth of employment is projected using an employment elasticity of 0.45—the same figure the Planning Commission used for its projections for the Seventh Five-Year Plan (2016–2020), and alternative rates of GDP growth of 6.5%, 7.0%, and 7.4% a year.

Table 4: Indexes of Real Wages, 2006–2012 (2005–2006 = 100)

Year	Overall	Industry	Construction	Agriculture
2006–2007	100.68	100.90	101.39	100.53
2007–2008	102.57	103.02	104.54	102.07
2008–2009	114.79	114.33	120.34	115.86
2009–2010	115.40	112.97	119.29	121.65
2010–2011	110.96	106.26	116.08	123.17
2011–2012	114.49	113.20	141.43	128.73

Note: Prepared by using data on nominal wages and consumer price indexes (CPI). For overall and industry and construction, the urban CPI has been used and for agriculture, the rural CPI has been used.
Source: Ministry of Finance. 2014. *Bangladesh Economic Review* (in Bengali). Dhaka: Government of Bangladesh.

It appears from the projections that if 1.81 million jobs per year is taken as the target, GDP growth of 6.5% a year would be adequate. However, with economic growth remaining at that level, the labor market will remain at its present state, with a large proportion of workers underemployed and poor although working. Absorption of surplus labor can start only when economic growth exceeds 6.5%. But even a growth rate of 7.4% (the average annual growth projected by the Planning Commission for the Seventh Plan period of 2015–2020) will not be adequate if the aim is to absorb all surplus labor in about 15 years. To achieve that goal, higher GDP growth will be required.[3]

KEY EMPLOYMENT CHALLENGES AT A GLANCE

- Capitalizing on the increase in the working-age population by raising the qualitative level of the labor force in both general and technical education with direct relevance to the needs of the labor market.
- Reversing the decline in the female labor force participation rate.
- Raising GDP growth progressively to 8% a year, which is required to absorb the surplus labor within 15 years or so.
- Attaining job-rich growth where high employment growth is achieved alongside high output growth. This is a challenge because of the recent experiences of manufacturing and construction. In the former, employment growth has exceeded output growth, whereas, in construction, employment growth has been negative despite positive output growth.
- The above requires a genuine structural transformation of the economy through much more diversified growth, in general, and of manufacturing, in particular.
- A major challenge is to raise productivity and incomes from labor—of both the wage employed and the self-employed. Separate strategies are needed for the two groups.
- The decline in women's employment growth needs to be reversed. Particularly important is a diversification of women's jobs to include service sector jobs and jobs abroad.
- The skill composition of migrant workers needs to change toward more skilled workers.
- Bringing down the unemployment rate among the educated and youth. Higher returns associated with investment in higher education show that investment in education is useful. But the functioning of the labor market for educated job seekers needs to improve.

[3] Using an employment elasticity of 0.45 and the projection model presented in the employment diagnostic report based on which this brief has been prepared, the required GDP growth for creating 13 million jobs (the number of jobs that would be needed in order to absorb the available surplus labor in 15 years) works out to be about 8.4% a year. In an earlier exercise (Islam 2014b), the author estimated the required GDP growth for attaining the same objective mentioned here (that of absorbing all the surplus labor in about 15 years) by using a higher employment elasticity of 0.55 (the figure for 2005–2010); and the figure was 8% a year. Clearly, if the job-creating capacity of the economy declines (which would be reflected in lower employment elasticity), higher output growth would be required to absorb the same amount of labor.

REFERENCES

Bangladesh Bureau of Statistics. 2013. Labor Force Survey 2013. Dhaka.

Islam, R. 2009. What Kind of Economic Growth is Bangladesh Attaining? In Q. Shahabuddin and R. I. Rahman, eds. *Development Experience and Emerging Challenges Bangladesh.* Dhaka: Bangladesh Institute of Development Studies and University Press Limited.

________. 2014a. Expanding Employment Opportunities: Policy Challenges for the Post-2015 Development Agenda. Paper presented at the International Symposium, Human Development in Global South: Emerging Perspectives in the Era of Post-Millennium Development Goals organized by the Institute of Human Development in New Delhi on 28–29 April 2014.

________. 2014b. The Employment Challenge Faced by Bangladesh: How Far is the Lewis Turning Point? *The Indian Journal of Labour Economics* 57 (2). pp. 201–225.

Rahman, R. I. 2012. *Bangladesher Arthaneeti O Unnayan: Swadhinotar Por 40 Bachhar* (in Bengali). Dhaka: Sahitya Prakash.

World Bank. World Development Indicators. http://data.worldbank.org/data-catalog/world-development-indicators)

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org/publications/series/adb-briefs

International Labour Organization
4 route des Morillons
1211 Geneva 22, Switzerland
Tel +41 (0)22 799 6111
Fax +41 (0) 22 798 8685
www.ilo.org/publns

In this publication, "$" refers to US dollars.

This Brief is a summary of chapter 2 of the employment diagnostic study on *Bangladesh: Looking beyond Garments* which was prepared under Research and Development Technical Assistance 7951 on Improving Employment Outcomes.

Publication Stock No. ABF168367-2